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SUBJECT: DCM URGES MFA TO SIGN COCA II AGREEMENT

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ACCORDINGLY.

11. (SBU) SUMMARY: China cannot go forward on the COCA II agreement unless the renovation of the old Chinese chancery in Washington DC is included under the 2003 COCA I agreement, MFA Department of Administration Director General Li Chao told the DCM in a December 30 meeting. China would like to see the design/permitting of the renovation, the shipment of construction materials and the issuance of visas related to the old chancery renovation project all controlled by COCA I terms. The DCM requested the meeting with DG Li to urge the Chinese to sign the COCA II agreement. The Ambassador and DCM have repeatedly raised the issue in high-level meetings, including the Ambassador's December 29 meeting with MFA Assistant Foreign Minister Liu Jieyi and the DCM's December 19 and 29 meetings with MFA North American and Oceania Affairs Department Director General Zheng Zeguang. The Ambassador and DCM also discussed COCA II in detail with PRC Ambassador to the United States Zhou Wenzhong in Beijing on December 24. End Summary.

No Deal Unless COCA I Applies to Chancery Renovation

12. (SBU) DG Li said China agrees that COCA II - the Agreement on Conditions of Construction of the U.S. Consulate in Guangzhou and the Renovation of the PRC Permanent Mission to the UN - should be signed, but only on the condition that the renovation of China's old chancery in Washington DC fall under the 2003 COCA I agreement. He stressed that putting the old chancery renovation project under COCA I is as important to China as maintaining visual control of construction materials and equipment is to the United States. He said the Chinese would like to see COCA I terms apply to the design/permitting of the renovation, the shipment of construction materials and the issuance of visas related to the old chancery renovation project.

13. (SBU) DG Li noted that he and other MFA officials have repeatedly made this request, adding that the inclusion of the renovation project under COCA I would be for the "convenience" of both sides. He urged the Department to assist in streamlining the local approval of the planning and design of the renovation project. He argued that the "excuse" of local DC laws is "unreasonable" and reiterated that moving forward on construction of the U.S. Consulate in Guangzhou is contingent upon "strong U.S. support" for China's old chancery renovation project.

December 18 Dip Notes Confusion

14. (SBU) DG Li said the Embassy's three diplomatic notes delivered to the MFA on December 18 caused some "confusion" in the MFA. He said the terms of the Dip Notes conflicted with the Chinese understanding of earlier consensus reached by the two sides. He claimed that Diplomatic Note 2152 runs counter to the conversation between Under Secretary Patrick Kennedy and Ambassador Zhou in regard to the sale of the U.S. Embassy's Er Ban compound. Apparently, Li believes Zhou informed us that the Er Ban sale should not be linked to the renovation of China's old chancery or

consulates in the United States. DG Li also similarly requested that the Er Ban sale not be linked to approval for leases for the Xinhua News Agency, as the MFA does not control Xinhua.

China Knows Rush and Risks

15. (SBU) DG Li noted the importance of the U.S.-China relationship, adding that the recent construction of new U.S. and Chinese Embassies marks a starting point for further development of the bilateral relationship. He said he has been responsible for budgets and understands what can happen to "idle" money. Although Li stressed the "urgent task" of reaching an agreement and mentioned China's "maximum sincerity" in meeting U.S. needs, he also made it clear that the Chinese would hope to continue negotiations to success in the new year if necessary.

DCM Responds

16. (SBU) The DCM promised to convey DG Li's message to Washington and to stress the Chinese desire for relief from DC planning and permitting laws. The DCM observed that the issues of visas and shipment of materials for the renovation project were less likely to be problematic. However, he cautioned that the location of the old chancery in Washington DC and not on land owned by the USG makes it difficult if not impossible for the Department to get the renovation "exempted" from DC permitting by applying COCA I. The DCM stressed the PRC could count on the USG's good faith efforts in support of the Chinese renovation. He also expressed concern that the expiration of the bids on construction of the new U.S. Consulate in Guangzhou could diminish the USG appetite for continuing negotiations in 2009, particularly given that delay may jeopardize funding.

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